

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07

L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 /092 W

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R 151834Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7291

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

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USMISSION GENEVA

AMCONSUL BELFAST

AMCONSUL EDINBURGH

AMCONSUL LIVERPOOL

AMEMBASSY STOCKHOLM

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PASS LABOR, TREASURY

E.O. 11652: N/A

TAGS: ELAB, UK, PINT, EC

SUBJECT: SHIRLEY WILLIAMS FAVORS RENEGOTIATION OF THE
SOCIAL CONTRACT WITH THE TUC

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REF: (A) LONDON'S 511; (B) LONDON'S 348

1. BEGIN SUMMARY - SHIRLEY WILLIAMS, SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION, GAVE HER VIEWS ON THE ECONOMY, THE EC MEMBERSHIP QUESTION, AND OTHER MATTERS DURING THE COURSE OF A DISCUSSION YESTERDAY (JANUARY 14) WITH SEVERAL LONDON-BASED LABOR ATTACHES. MRS. WILLIAMS IS CONFIDENT THAT IT WILL BE POSSIBLE TO "RENEGOTIATE" THE SOCIAL CONTRACT WITH THE TRADE UNIONS IN VIEW OF THE DRASTICALLY ALTERED ECONOMIC CIRCUMSTANCES. SHE ALSO EXPRESSED CONFIDENCE THAT THE PRO-MARKETEERS 'WOULD WIN'. IN THE BATTLE TO KEEP BRITAIN IN THE EC, BUT SHE REITERATED HER PLEDGE TO "QUIT POLITICS" IF THEY DID NOT. END SUMMARY

2. MRS. WILLIAMS SAID THAT THE SOCIAL CONTRACT WAS LAUNCHED AT A TIME WHEN THE TUC WAS BASING ITS ASSUMPTIONS ON A 5 TO 6 PERCENT GROWTH RATE AND WHEN THE GENERAL ECONOMIC FORECASTS INDICATED THAT INFLATION COULD BE BROUGHT DOWN TO THE 11 TO 12 PERCENT LEVEL. THE CIRCUMSTANCES WERE NOW DRASTICALLY ALTERED AND INFLATION, FOR ONE THING, WAS IN THE AREA OF 19 PERCENT. THUS, THE GOVERNMENT MUST NOW "RENEGOTIATE" THE SOCIAL CONTRACT WITH THE TUC IN VIEW OF THESE ALTERED CIRCUMSTANCES. THE SECRETARY OF STATE WAS CONFIDENT, MOREOVER, THAT THE TUC WOULD TAKE A MODERATE, PRAGMATIC VIEW. SHE CHARACTERIZED SOME OF THE FUROR FOLLOWING CHANCELLOR HEALEY'S SPEECH ON FRIDAY (REF A) AS ESSENTIALLY A "LOT OF HOWLING" BUT THAT WHEN THE DUST SETTLED, THE TRADE UNION LEADERSHIP WOULD TAKE A COOLER VIEW.

3. MRS. WILLIAMS SAID THERE WERE ESSENTIALLY THREE POSSIBLE ALTERNATIVE POLICIES WHICH THE GOVERNMENT COULD PROPOSE. IT COULD RETURN TO A FREEZE CUM STATUTORY INCOMES POLICY OR COULD DO NOTHING, BUT SHE REJECTED THESE TWO COURSES AS TOTALLY INADEQUATE. OR IT COULD TAKE THE COURSE -- ONE SHE STRONGLY FAVORS -- OF OFFERING A "PACKAGE OF PROPOSALS." THESE WOULD HAVE A NUMBER OF IMPORTANT ASPECTS. A CENTRAL AIM OF THE "PACKAGE" WOULD BE TO ESTABLISH "WAGE NORMS" IN AGREEMENT WITH THE TUC, TAKING INTO ACCOUNT THE REDUCED ECONOMIC CIRCUM-
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STANCES IN THE COUNTRY. THESE NORMS WOULD BE REINFORCED THROUGH THE INTERVENTION OF THE TAX AND PRICE STRUCTURES. (SHE REFERRED, FOR EXAMPLE, TO AN "INFLATION TAX" AS ONE POSSIBILITY.) AT THE SAME TIME, THE GOVERNMENT WOULD TAKE MEASURES TO LIMIT UNEMPLOYMENT. FURTHERMORE, FOR THOSE WHO WERE UNAVOIDABLY UNEMPLOYED, SUCH A PACKAGE WOULD ALSO INCLUDE SUBSTANTIAL MANPOWER PROGRAMS TO RETRAIN THEM -- AND IN THE PROCESS, SHE NOTED, PROVIDE THE BEST OPPORTUNITY SINCE THE SECOND WORLD WAR TO OBTAIN SKILLED WORKERS FOR THE MANY JOBS WHICH CONTINUE

TO GO BEGGING -- EVEN DURING A WORSENING ECONOMIC
SITUATION. IN ADDITION, MRS. WILLIAMS SAID, THE GOVT.--
THOUGH FUNDS ARE IN SHORT SUPPLY -- WOULD SUPPLEMENT
THE PACKAGE BY CONTINUING THE CURRENT SUBSIDIES ON BASIC
FOODS.

4. MRS. WILLIAMS STRONGLY EMPHASIZED THAT THE TIMING OF
ANY NEW MEASURES WAS OF FUNDAMENTAL IMPORTANCE. THE
CURRENT ANNUAL WAGE ROUNDS MUST BE COMPLETED FIRST, FOR
SHE NOTED: "THERE IS NO USE TRYING TO GET AN AGREEMENT
ON NEW PROPOSALS IF HALF THE WAGE CLAIMS ARE STILL TO

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BE NEGOTIATED." AT THE SAME TIME, SHE SAID THAT THE
GOVERNMENT CANNOT WAIT TOO LONG. THUS, THE LIKELY
PERIOD IS SOMETIME AFTER APRIL AND BEFORE JULY. THE
"RENEGOTIATIONS," THEREFORE, WOULD HAVE TO TAKE PLACE
WITH THE TWO PARTIES TO THE SOCIAL CONTRACT AND SHE
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ALSO ACKNOWLEDGED THAT THE TUC-LABOR PARTY LIAISON
COMMITTEE (DUE TO MEET ON JANUARY 20) MAY VERY WELL
DISCUSS THE WHOLE ISSUE.

5. EUROPEAN COMMUNITY - MRS. WILLIAMS TOLD ONE OF HER
AUDITORS THAT INsofar AS THE EC RENEGOTIATIONS WERE
CONCERNED "WE (THE PRO-MARKETEERS) WILL WIN." SHE
BELIEVES THAT THERE WILL BE A COLLECTIVE CABINET DECIS-
ION RECOMMENDING CONTINUED MEMBERSHIP BUT THAT "IN THIS
SPECIAL CASE" THOSE IN THE CABINET, SUCH AS PETER SHORE,
WHO ARE ANTI-MARKETEERS, WILL BE PERMITTED TO TAKE THEIR
CASE TO THE PEOPLE. SHE IS VERY CONCERNED THAT THE
CABINET DECISION SHOULD PRECEDE THE SPECIAL LABOR PARTY
CONFERENCE SO THAT THE RESPONSIBILITY FOR SPLITTING THE
PARTY WILL BE ON THE ANTI-MARKETEERS. SHE ALSO BELIEVES
THAT THE PARLIAMENTARY LABOR PARTY WILL SUPPORT THE
CABINET'S RECOMMENDATION, WHICH MOREOVER WILL CARRY THE
VITAL IMPRIMATUR OF WILSON, HEALEY AND OTHER MAJOR
LEADERS OF THE PARTY. WHILE SHE IS CONFIDENT THAT THE
REFERENDUM WILL BE FAVORABLE, SHE SAID THAT IF SHE IS
PROVED WRONG, SHE WILL CARRY OUT HER EARLIER THREAT TO
"QUIT POLITICS." THE WORSE RESULT SHE CAN ENVISAGE IS
IF THE VOTE IN FAVOR IS THAT OF A MINORITY (I.E., A
MAJORITY VOTE, OF COURSE, BUT WITH LESS THAN A MAJORITY
OF THE POPULATION VOTING), FOR THEN THE ANTI-MARKETEERS
WILL KEEP THE ARGUMENT GOING. (IT WAS NOT ENTIRELY
CLEAR FROM HER REMARKS WHETHER, IF THE SITUATION WERE
REVERSED (I.E., "A MINORITY OF A MAJORITY". FOR BRITISH
WITHDRAWAL) THE PRO-MARKETEERS WOULD KEEP FIGHTING AS
WELL, BUT SHE APPEARED TO SAY THAT UNDER THESE CIRCUM-
STANCES THE FIGHT WOULD BE OVER.)

6. MRS. WILLIAMS IS NOT TOO HOPEFUL THAT THE TUC, IF
IT TAKES A PUBLIC STAND ON THE REFERENDUM, WOULD DEVIATE
FROM ITS ANTI-MARKET LINE, BUT SHE NOTED THAT A NUMBER
OF TUC NATIONAL UNION LEADERS HAVE TOLD HER THAT THEY

ARE PRIVATELY IN FAVOR OF CONTINUED MEMBERSHIP. NOR DOES SHE BELIEVE THAT JACK JONES WILL CHANGE HIS ANTI-MARKET POSITION, ALTHOUGH SHE AGREED IT IS POSSIBLE FOR HIM TO BE LESS VOCIFEROUSLY AGAINST CONTINUED MEMBERSHIP "BECAUSE HE IS CONCERNED ABOUT THE FUTURE OF THE LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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PARTY."

7. THE SECRETARY OF STATE VIEWS THE SHARP DIVISIONS WITHIN THE LABOR PARTY ON THE EC AS BASICALLY A CONTINUATION OF OLD DIVISIONS WITHIN THE PARTY OVER CERTAIN KEY ISSUES WHICH - IN MORE RECENT TIMES - HAVE INCLUDED THE QUESTION OF "THE BOMB, NUCLEAR BASES, AND GENERAL DEFENSE ISSUES." SHE LIKENED THE LABOR PARTY DIVISIONS TO THOSE WITHIN THE DEMOCRATIC PARTY IN THE US (WHICH SHE RECENTLY VISITED) AND IN GENERAL, SHE TAKES A RATHER RELAXED VIEW OF THIS STATE OF AFFAIRS FOR THE FUTURE OF THE PARTY.

8. MRS. WILLIAMS DENIED THAT THE LEFT WAS SURGING AHEAD IN THE PARTY OR THE TRADE UNION MOVEMENT. SHE SAID SHE WAS MUCH HEARTENED BY THE GENERAL SUCCESS OF THE MODERATES IN THE VARIOUS COMMITTEE ELECTIONS DURING THE LABOR PARTY CONFERENCE, WHICH INCLUDED VICTORIES FOR A NUMBER OF PRO-MARKETEERS. AND WITHIN THE TRADE UNION MOVEMENT, SHE IS VERY PLEASED, SHE SAID, THAT THE MODERATES HAVE BEEN SUCCESSFUL IN A NUMBER OF ELECTORAL CONTESTS WITHIN HUGH SCANLON'S UNION, THE AMALGAMATED UNION OF ENGINEERING WORKERS (REF B). SHE ALSO OBSERVED THAT IT WAS NO LONGER CORRECT TO LINK JACK JONES WITH HUGH SCANLON AS ONE OF THE "TERRIBLE TWINS" OF THE LEFT, FOR HE HAD SUBSTANTIALLY MODERATED HIS POSITION.

9. COMMENT: MRS. WILLIAMS SEEMS TO BE FLESHING OUT THE HEALEY INITIATIVE (REF A), ALTHOUGH HE POSED THE ISSUE IN MUCH HARsher TERMS (REDUCTION IN WAGE INCREASES OR UNEMPLOYMENT). IT WOULD APPEAR THAT THE GOVERNMENT MAY BE MOVING TOWARD THE MIDDLE WAY TO DEAL WITH THE ECONOMIC CRISIS AND OBVIOUSLY MRS. WILLIAMS, AN APOSTLE OF SWEET REASON AND MODERATION IS VERY MUCH AT HOME IN THIS CONTEXT. IT REMAINS TO BE SEEN, HOWEVER, WHETHER THE SAME MOOD WILL PERVADE THE TALKS BETWEEN THE GOVERNMENT AND THE TUC.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, ECONOMIC CONDITIONS, MEMBERSHIP, NEGOTIATIONS, LABOR UNIONS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON00660
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750016-0070
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750150/aaaabseg.tel
Line Count: 270
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 LONDON'S 511, 75 LONDON'S 348
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2003 by MartinML>; APPROVED <10 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SHIRLEY WILLIAMS FAVORS RENEGOTIATION OF THE SOCIAL CONTRACT WITH THE TUC
TAGS: ELAB, PINT, UK, EEC, TUC, (WILLIAMS, SHIRLEY)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006